

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

CHARTER TOWNSHIP OF ANN ARBOR

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

CHARTER TOWNSHIP OF ANN ARBOR

TOWNSHIP OFFICIALS

Supervisor - Michael Moran
Clerk - Rena Basch
Treasurer - Virginia Forshee

BOARD OF TRUSTEES

John Allison
Rena Basch
Richard Dieterle, M.D.
Della Dipietro
Virginia Forshee
Michael Moran
Randolph Perry

LEGAL COUNSEL

Bodman, LLP

TOWNSHIP AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER • HANNIFORD • PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

March 21, 2007

Board of Trustees
Charter Township of Ann Arbor
3792 Pontiac Trail
Ann Arbor, Michigan 48105

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Ann Arbor, as of and for the year ended December 31, 2006, which collectively comprise the Charter Township of Ann Arbor's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Ann Arbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Ann Arbor, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 7 through 12 and 38 through 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Ann Arbor's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, such as the combining and individual fund statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis December 31, 2006

This section of the Ann Arbor Charter Township's annual financial report provides a narrative discussion and analysis of the Township's financial activities for the fiscal year ended December 31, 2006. This narrative discusses and analyzes the activity within the context of the financial statements and disclosures that follow this section. The discussion focuses on the Township's primary governmental functions and, unless otherwise noted, component units reported separately from the primary governmental functions are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Township's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also includes additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Township's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Township's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Township-wide statement of position presenting information that includes all the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall health of the Township may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Township's distinct activities or functions on the revenues generated by the Township.

Both government-wide financial statements distinguish governmental activities of the Township that are principally supported by taxes and revenue sharing from the business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include such activities as general government, public safety, and planning and zoning departments. Business-type activities include water & sewer system operations. Fiduciary activities such as tax collection are not included in the government-wide statements since these assets are not available to fund Township programs.

The Township's financial reporting includes all the funds of the Township (primary government) and, additionally, organizations for which the Township is accountable (component units).

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Township uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Township's most significant funds rather than the Township as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the combining statements later in this report.

The Township has three kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Proprietary funds are reported in the fund financial statements and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary funds are reported in the fiduciary fund financial statements, but are excluded from the government-wide statements. Fiduciary fund financial statements report resources that are not available to fund Township activities.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Major funds are reported in the basic financial statements as discussed. Combining and individual statements and schedules for non-major funds are presented in a subsequent section of this report.

Financial Analysis of the Township as a Whole

The Township had implemented the new financial reporting model used in this report beginning with the prior fiscal year ended December 31, 2004. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Township as a whole.

The Township's net assets at the end of the fiscal year were \$24,287,520. This is a \$326,868 increase over last year's net assets of \$23,960,652.

The following tables provide a summary of the Township's financial activities and changes in net assets:

SUMMARY OF NET ASSETS DECEMBER 31, 2006 & 2005

	GOVERNMENTAL ACTIVITIES		
	12/31/05	12/31/06	Increase (Decrease)
ASSETS			
Current and other assets	\$ 6,075,087	\$ 6,355,884	\$ 280,797
Capital assets	<u>2,328,844</u>	<u>2,585,360</u>	<u>256,516</u>
Total assets	<u>8,403,931</u>	<u>8,941,244</u>	<u>537,313</u>
LIABILITIES			
Other liabilities	244,501	285,824	41,323
Deferred revenues	<u>1,764,888</u>	<u>1,658,047</u>	<u>(106,841)</u>
Total liabilities	<u>2,009,389</u>	<u>1,943,871</u>	<u>(65,518)</u>
NET ASSETS			
Invested in capital assets	2,328,844	2,585,360	256,516
Unrestricted	<u>4,065,698</u>	<u>4,412,013</u>	<u>346,315</u>
Total net assets	<u>\$ 6,394,542</u>	<u>\$ 6,997,373</u>	<u>\$ 602,831</u>

BUSINESS TYPE ACTIVITIES			TOTALS		
12/31/05	12/31/06	Increase (Decrease)	12/31/05	12/31/06	Increase (Decrease)
\$ 6,183,930	\$ 6,575,368	\$ 391,438	\$ 12,259,017	\$ 12,931,252	\$ 672,235
<u>11,673,956</u>	<u>11,775,142</u>	<u>101,186</u>	<u>14,002,800</u>	<u>14,360,502</u>	<u>357,702</u>
<u>17,857,886</u>	<u>18,350,510</u>	<u>492,624</u>	<u>26,261,817</u>	<u>27,291,754</u>	<u>1,029,937</u>
291,776	560,363	268,587	536,277	846,187	309,910
<u>291,776</u>	<u>500,000</u>	<u>500,000</u>	<u>1,764,888</u>	<u>2,158,047</u>	<u>393,159</u>
<u>291,776</u>	<u>1,060,363</u>	<u>768,587</u>	<u>2,301,165</u>	<u>3,004,234</u>	<u>703,069</u>
11,673,956	11,775,142	101,186	14,002,800	14,360,502	357,702
<u>5,892,154</u>	<u>5,515,005</u>	<u>(377,149)</u>	<u>9,957,852</u>	<u>9,927,018</u>	<u>(30,834)</u>
<u>\$ 17,566,110</u>	<u>\$ 17,290,147</u>	<u>\$ (275,963)</u>	<u>\$ 23,960,652</u>	<u>\$ 24,287,520</u>	<u>\$ 326,868</u>

CHARTER TOWNSHIP OF ANN ARBOR
SUMMARY OF CHANGES IN NET ASSETS
FOR THE YEARS ENDING DECEMBER 31, 2005 & 2006

	GOVERNMENTAL ACTIVITIES		
	<u>12/31/05</u>	<u>12/31/06</u>	<u>Increase (Decrease)</u>
REVENUES			
Program revenues			
Charges for services	\$ 561,567	\$ 573,438	\$ 11,871
Capital grants and contributions	75,316	1,725,885	1,650,569
General revenues			
State shared revenues	294,887	298,240	3,353
Property taxes	1,525,592	1,578,330	52,738
Interest	134,538	189,875	55,337
Other	<u>223,279</u>	<u>208,808</u>	<u>(14,471)</u>
Total revenues	<u>2,815,179</u>	<u>4,574,576</u>	<u>1,759,397</u>
EXPENSES			
General government	824,730	813,221	(11,509)
Fire protection	1,030,676	982,000	(48,676)
Police protection	354,280	369,374	15,094
Street lighting	4,066	3,904	(162)
Public works	73,235	44,911	(28,324)
Farmland preservation		2,258,335	2,258,335
Water and sewer systems			
Total expenses	<u>2,286,987</u>	<u>4,471,745</u>	<u>2,184,758</u>
TRANSFERS		<u>500,000</u>	<u>500,000</u>
CHANGE IN NET ASSETS	<u>528,192</u>	<u>602,831</u>	<u>74,639</u>
BEGINNING NET ASSETS - BEFORE PRIOR PERIOD ADJUSTMENT	5,866,350	6,394,542	528,192
PRIOR PERIOD ADJUSTMENT			
BEGINNING NET ASSETS - AFTER PRIOR PERIOD ADJUSTMENT	<u>5,866,350</u>	<u>6,394,542</u>	<u>528,192</u>
ENDING NET ASSETS	<u>\$ 6,394,542</u>	<u>\$ 6,997,373</u>	<u>\$ 602,831</u>

BUSINESS TYPE ACTIVITIES			TOTALS		
12/31/05	12/31/06	Increase (Decrease)	12/31/05	12/31/06	Increase (Decrease)
\$ 927,335	\$ 950,978	\$ 23,643	\$ 1,488,902	\$ 1,524,416	\$ 35,514
	439,600	439,600	75,316	2,165,485	2,090,169
			294,887	298,240	3,353
			1,525,592	1,578,330	52,738
174,984	323,297	148,313	309,522	513,172	203,650
			223,279	208,808	(14,471)
<u>1,102,319</u>	<u>1,713,875</u>	<u>611,556</u>	<u>3,917,498</u>	<u>6,288,451</u>	<u>2,370,953</u>
			824,730	813,221	(11,509)
			1,030,676	982,000	(48,676)
			354,280	369,374	15,094
			4,066	3,904	(162)
			73,235	44,911	(28,324)
				2,258,335	2,258,335
<u>1,537,766</u>	<u>1,550,495</u>	<u>12,729</u>	<u>1,537,766</u>	<u>1,550,495</u>	<u>12,729</u>
<u>1,537,766</u>	<u>1,550,495</u>	<u>12,729</u>	<u>3,824,753</u>	<u>6,022,240</u>	<u>2,197,487</u>
	(500,000)	(500,000)			
(435,447)	(336,620)	98,827	92,745	266,211	173,466
18,001,557	17,566,110	(435,447)	23,867,907	23,960,652	92,745
	60,657	60,657		60,657	60,657
<u>18,001,557</u>	<u>17,626,767</u>	<u>(374,790)</u>	<u>23,867,907</u>	<u>24,021,309</u>	<u>153,402</u>
<u>\$ 17,566,110</u>	<u>\$ 17,290,147</u>	<u>\$ (275,963)</u>	<u>\$ 23,960,652</u>	<u>\$ 24,287,520</u>	<u>\$ 326,868</u>

FINANCIAL HIGHLIGHTS OF THE TOWNSHIP'S MAJOR FUNDS

General Fund

At year end, revenues exceeded expenditures by \$66,969. The Township does not expect to see similar performance in the future as a result of the declining State economy and other economic forces. See, "Economic Conditions and Future Activities," below.

Fire Fund

At year end, the Fire Fund reported revenues exceeding expenditures by \$63,787. The millage supporting fire operations expired at the end of 2006 and has been replaced with a combined public safety millage for fire and police.

Farmland Preservation Fund

This Fund recognizes the collection of property taxes and expenditures for the preservation of farmlands in the Township. Taxes levied in December 2005 were recognized as income in 2006. Expenditures this year were largely for payment of development rights for a parcel of land. See notes for more detail.

Water and Sewer Fund

This is the Township's major business fund. This fund spent \$47,480 for system capital improvements and equipment. Developer's contributed \$439,600 of infrastructure towards the systems in 2006. The fund has a net loss for the year of (\$336,620). This includes depreciation expense of \$385,894. There was also a prior period adjustment of \$60,657 which added to equity. The adjustment was related to an over charge by the City in 2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Township's governmental funds purchased \$174,267 of new capital assets during the year. This included \$48,260 for Fire Department equipment improvements to the Township offices and the installation of digital audio-video equipment in the meeting room totaling \$126,007.

The Township did not incur any debt in any fund during the year ending December 31, 2006. As of year end, the Township has no outstanding long-term debt, with outside parties. However, the Water and Sewer Fund did loan to the Farmland Preservation Fund \$500,000 during the year.

ECONOMIC CONDITIONS AND FUTURE ACTIVITIES

The State's economy continues to stagnate. The attempt to balance the State budget has resulted in a reduction in State revenue sharing over the last several years, and the appropriation by the State of sources of revenue that were previously sources of Township revenue. The State shares a percentage of collected sales tax with local governments, including townships. Ann Arbor Township's portion of that revenue sharing has decreased almost \$40,000 over the last four years from \$336,899 in 2002 to \$298,240 in 2006. The Township anticipates further reductions in state revenue sharing due to the declining economic environment. In addition, the State has appropriated fees that townships used to be able to charge to utilities for use of the rights-of-way. The State now collects such fees and rebates a small portion of them back to the townships.

Expenses continue to rise. The most dramatic increase will be seen in the cost of providing police protection through the Washtenaw County Sheriff's Department. By 2008, the cost we incur for four contract deputies will rise 88% over the cost for the same number of deputies in 2002.

Moreover, the result of the 1994 Boundary Policy Agreement with the City of Ann Arbor will be increasingly felt. This year 9 parcels were released to the City pursuant to the 1994 agreement. More than 117 parcels are expected to be annexed by year-end 2007. Moreover, the 1994 agreement provides that after January 1, 2008, the City can annex most Township parcels that are within the freeway - Huron River ring. The Township has carefully studied the long-term effects of this annexation and is preparing for a financially secure future.

In 2006, the Township proposed, and its citizens approved, a 3.98 mil property tax for the provision of public safety services - police, fire and emergency medical. 1.98 mills of that tax essentially replaces a fire only operating millage scheduled to expire December 31, 2006. The additional millage is to be used for providing police, fire and emergency medical services, and is sufficient to cover significant cost increases in police services being imposed by the County. Previously, the cost of police services was absorbed by the General Fund. The money freed-up in the general fund as a result of the dedicated Public Safety millage will off-set the loss of tax revenue resulting from annexation of Township property annexed into the City of Ann Arbor.

The Township is also engaged in an on-going review of the fees that it charges to developers who have projects under construction to assure that it fully recovers those costs.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Township's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information, please contact the Charter Township of Ann Arbor at 3792 Pontiac Trail, Ann Arbor, MI 48105; telephone 734-663-3418.

BASIC FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
ASSETS			
Cash and investments	\$ 4,711,544	\$ 5,722,168	\$ 10,433,712
Receivables			
Accounts	4,050	179,664	183,714
Assessments	47	500,000	500,047
Taxes	833,786		833,786
Interest	28,090	149,290	177,380
State shared revenues	47,195		47,195
Intergovernmental	657,687	7,119	664,806
Prepaid expenses	73,485	17,127	90,612
Capital assets			
Land	309,860		309,860
Buildings and improvements	1,927,000		1,927,000
Utility systems		18,337,611	18,337,611
Vehicles and equipment	1,946,292		1,946,292
Less: accumulated depreciation	(1,597,792)	(6,562,469)	(8,160,261)
Total assets	<u>8,941,244</u>	<u>18,350,510</u>	<u>27,291,754</u>
<u>LIABILITIES</u>			
LIABILITIES			
Accounts payable - trade	56,662	172,523	229,185
Accounts payable - intergovernmental			
Accrued wages/pension	9,564		9,564
Accrued potential litigation	72,214		72,214
Accrued connection fees		366,736	366,736
Accrued compensated absences	52,070	21,104	73,174
Deferred revenues	1,658,047	500,000	2,158,047
Other liabilities	95,314		95,314
Total liabilities	<u>1,943,871</u>	<u>1,060,363</u>	<u>3,004,234</u>
<u>NET ASSETS</u>			
NET ASSETS			
Invested in capital assets, net of related debt	2,585,360	11,775,142	14,360,502
Unrestricted	4,412,013	5,515,005	9,927,018
Total net assets	<u>\$ 6,997,373</u>	<u>\$ 17,290,147</u>	<u>\$ 24,287,520</u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Programs Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ (813,221)	\$ 563,420	\$	\$ 13,584	\$ (236,217)	\$	\$ (236,217)
Fire protection	(982,000)	6,329		27,055	(948,616)		(948,616)
Police protection	(369,374)				(369,374)		(369,374)
Streetlighting	(3,904)	3,689			(215)		(215)
Farmland preservation	(2,258,335)			1,685,246	(573,089)		(573,089)
Public works	(44,911)				(44,911)		(44,911)
Total governmental activities	<u>\$ (4,471,745)</u>	<u>\$ 573,438</u>		<u>\$ 1,725,885</u>	<u>(2,172,422)</u>		<u>(2,172,422)</u>
Business-type activities							
Water and sewer+A1	<u>(1,550,495)</u>	<u>950,978</u>	<u>439,600</u>			<u>(159,917)</u>	<u>(159,917)</u>
Total	<u>\$ (6,022,240)</u>	<u>\$ 1,524,416</u>	<u>\$ 439,600</u>	<u>\$ 1,725,885</u>	<u>(2,172,422)</u>	<u>(159,917)</u>	<u>(2,332,339)</u>
General revenues							
Property taxes					1,578,330		1,578,330
State shared revenues					298,240		298,240
Franchise fees					61,931		61,931
Rental income					140,734		140,734
Unrestricted investment earnings					189,875	323,297	513,172
Other income					<u>6,143</u>		<u>6,143</u>
Total general revenues					<u>2,275,253</u>	<u>323,297</u>	<u>2,598,550</u>
Transfers					<u>500,000</u>	<u>(500,000)</u>	
Changes in net assets					<u>602,831</u>	<u>(336,620)</u>	<u>266,211</u>
Net assets, January 1, 2006 - Before Prior Period Adjustment					6,394,542	17,566,110	23,960,652
Prior period adjustment						<u>60,657</u>	<u>60,657</u>
Net assets, January 1, 2006 - After Prior Period Adjustment					<u>6,394,542</u>	<u>17,626,767</u>	<u>24,021,309</u>
Net assets, December 31, 2006					<u>\$ 6,997,373</u>	<u>\$ 17,290,147</u>	<u>\$ 24,287,520</u>

The notes of the financial statements are an integral part of this statement.

FUND
FINANCIAL
STATEMENTS

CHARTER TOWNSHIP OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	Fire Fund	Farmland Preservation Fund	Non-major Funds	Totals
<u>ASSETS</u>					
ASSETS					
Cash and cash equivalents	\$ 2,514,698	\$ 605,939	\$ 255,900	\$ 1,335,007	\$ 4,711,544
Receivables					
Accrued interest receivable	28,090				28,090
Taxes receivable	264,720	569,066			833,786
SAD receivable				47	47
State shared revenue receivable	47,195				47,195
Accounts receivable - other			4,050		4,050
Due from other funds	173,469	357,833	126,385		657,687
Prepaid expense	19,378	54,107			73,485
Total assets	<u>\$ 3,047,550</u>	<u>\$ 1,586,945</u>	<u>\$ 386,335</u>	<u>\$ 1,335,054</u>	<u>\$ 6,355,884</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES					
Accounts payable	\$ 36,732	\$ 13,177	\$ 4,907	\$ 1,846	\$ 56,662
Accrued payroll	9,564				9,564
Accrued potential litigation	72,214				72,214
Accrued compensated absences		\$ 44,874		\$ 7,196	52,070
Deferred revenue	524,153	926,899	126,385	80,610	1,658,047
Bank overdraft		70,314			70,314
Deposit on truck				25,000	25,000
Total liabilities	<u>642,663</u>	<u>1,055,264</u>	<u>131,292</u>	<u>114,652</u>	<u>1,943,871</u>
FUND BALANCE	<u>2,404,887</u>	<u>531,681</u>	<u>255,043</u>	<u>1,220,402</u>	<u>4,412,013</u>
Total liabilities and fund balance	<u>\$ 3,047,550</u>	<u>\$ 1,586,945</u>	<u>\$ 386,335</u>	<u>\$ 1,335,054</u>	<u>\$ 6,355,884</u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
DECEMBER 31, 2006

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance per balance sheet		\$ 4,412,013
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Historical cost	\$ 4,183,152	
Depreciation	<u>(1,597,792)</u>	
Capital assets net of depreciation		<u>2,585,360</u>
Net assets of governmental activities		<u><u>\$ 6,997,373</u></u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Fire Fund	Farmland Preservation Fund	Non-major Funds	Totals
REVENUES					
Taxes	\$ 362,470	\$ 898,480	\$ 317,380	\$	\$ 1,578,330
Tax collection fees	144,439				144,439
State revenue sharing	298,240				298,240
Special assessments				3,689	3,689
Fees and service	26,724				26,724
Cable franchise fees	61,931				61,931
Metro fees	5,709				5,709
Annexation fees	7,500				7,500
Fines	3,366				3,366
Service contract	123,236			75,378	198,614
Building permits				177,068	177,068
Grant	13,584	27,055	698,500		739,139
Charges for services		6,329			6,329
Interest	119,429	37,168	6,801	26,477	189,875
Penalties and interest	2,992				2,992
Rental income	64,973			75,761	140,734
Miscellaneous	2,869	282			3,151
Donations			986,746		986,746
Total revenues	<u>1,237,462</u>	<u>969,314</u>	<u>2,009,427</u>	<u>358,373</u>	<u>4,574,576</u>
EXPENDITURES					
Board of trustees	28,172				28,172
Supervisor	89,524				89,524
Accounting and audit	11,528				11,528
Assessor	10,387				10,387
Election	87,897				87,897
Legal counsel	91,289				91,289
Clerk	101,846				101,846
Treasurer	91,267				91,267
Buildings and grounds	22,320				22,320
Central charges	139,150				139,150
Sheriff department	369,374				369,374
Planning commission	57,333				57,333
Zoning board of appeals	21,544				21,544
Roads	44,911				44,911
Other	3,951				3,951
Fire protection		905,527			905,527
Building department				160,142	160,142
Street lighting				3,904	3,904
Farmland preservation			2,488,195		2,488,195
Total expenditures	<u>1,170,493</u>	<u>905,527</u>	<u>2,488,195</u>	<u>164,046</u>	<u>4,728,261</u>
Excess (deficiency) of revenues over (under) expenditures	66,969	63,787	(478,768)	194,327	(153,685)
OTHER FINANCING SOURCES					
Transfers in			500,000		500,000
Net change in fund balance	66,969	63,787	21,232	194,327	346,315
FUND BALANCE, JANUARY 1, 2006	<u>2,337,918</u>	<u>467,894</u>	<u>233,811</u>	<u>1,026,075</u>	<u>4,065,698</u>
FUND BALANCE, DECEMBER 31, 2006	<u>\$ 2,404,887</u>	<u>\$ 531,681</u>	<u>\$ 255,043</u>	<u>\$ 1,220,402</u>	<u>\$ 4,412,013</u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds	\$ 346,315
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Governmental funds report capital outlay as expenditures.

However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. The amount by which capital outlay exceeded depreciation is as follows:

Capital outlay	\$ 404,127	
Fixed Asset adjustment	(3,850)	
Depreciation expense	<u>(143,761)</u>	
 Total		 <u>256,516</u>

Change in net assets of governmental activities	<u>\$ 602,831</u>
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The notes of the financial statements are an integral part of this statement.

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF NET ASSETS
WATER AND SEWER FUND
DECEMBER 31, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,619,316	
Accounts Receivable	179,664	
Taxes receivable	500,000	
Interest receivable	149,290	
Prepaid expenses	17,127	
Due from others	<u>7,119</u>	
Total current assets		\$ 4,472,516

RESTRICTED ASSETS

Cash and cash equivalents		2,102,852
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PROPERTY, PLANT AND EQUIPMENT

Water and sewer system	15,571,024	
Equipment	<u>2,766,587</u>	
Total	18,337,611	
Less accumulated depreciation	<u>6,562,469</u>	
Net property, plant and equipment		<u>11,775,142</u>
Total assets		<u>18,350,510</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	172,523	
Accrued compensated absences	21,104	
Deferred revenue	500,000	
Accrued connection fees	<u>366,736</u>	
Total current liabilities		<u>1,060,363</u>

NET ASSETS

NET ASSETS

Invested in capital assets	11,775,142	
Unrestricted	<u>5,515,005</u>	
Total net assets		<u>\$ 17,290,147</u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Total</u>
OPERATING REVENUES	
Charges for services and meters	<u>\$ 941,675</u>
OPERATING EXPENSES	
Purchases of water and sewer	822,902
Wages	97,826
Insurance – employees	35,718
Pension	7,476
Payroll taxes	7,162
Office	1,731
Printing	1,665
Gasoline and diesel	3,335
Consultants	20,463
Legal and accounting	36,381
Dues and memberships	225
Service contracts	7,367
Utilities and telephone	13,654
Insurance and bonds	16,741
Repairs and maintenance	49,268
Building, office and personnel allocation	20,500
Small equipment	17,545
Depreciation expense	385,894
Other operating expenses	<u>3,655</u>
Total operating expenses	<u>1,549,508</u>
Operating (loss)	<u>(607,833)</u>
NON-OPERATING REVENUES (EXPENSES)	
Loss on projects	(987)
Transfer-out Farmland Preservation Fund	(500,000)
Interest income - special assessments	293
Interest income - investments	323,004
Connection fees (net)	9,303
Developer's contributions	<u>439,600</u>
Total other revenues/expenses	<u>271,213</u>
Change in net assets	<u>(336,620)</u>
Net Assets , January 1, 2006 (before prior period adjustment)	17,566,110
Prior period adjustment	<u>60,657</u>
Net Assets, January 1, 2006 (after prior period adjustment)	<u>17,626,767</u>
NET ASSETS, DECEMBER 31, 2006	<u><u>\$ 17,290,147</u></u>

The notes of the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF ANN ARBOR
STATEMENT OF CASH FLOWS
WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM (USED - IN) OPERATING ACTIVITIES

Receipts from customers	\$ 936,893
Receipts from other government agencies	102,109
Payments to and on behalf of employees	(148,182)
Payments to vendors	<u>(833,598)</u>

Net cash from operating activities \$ 57,222

CASH FLOWS FROM (USED - IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Special assessment interest	293
Connection fees, net - city	9,303
Acquisition of property, plant and equipment	(47,480)
Transfer to Farmland Preservation Fund	<u>(500,000)</u>

Net cash (used in) capital and related
financing activities (537,884)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	323,004
Project escrow reimbursements	<u>(987)</u>

Net cash flows from investing activities 322,017

Decrease in cash (158,645)

CASH AT JANUARY 1, 2006 5,880,813

CASH AT DECEMBER 31, 2006 \$ 5,722,168

RECONCILIATION OF OPERATING INCOME
TO NET CASH FROM (USED - IN) OPERATING ACTIVITIES

Operating (loss)	(607,833)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	385,894
Depreciation expense	
Changes in assets and liabilities	
(Increase) in prepaid expenses	(15,953)
Decrease in due from others	41,452
(Increase) in accounts receivable	(6,021)
Decrease in assessments receivable	1,239
(Increase) in interest receivable	(70,800)
(Decrease) in accounts payable	(87,015)
(Decrease) in due to other funds	(15,406)
Increase in accrued compensated absences	4,272
Increase in accrued connection fees	366,736
Prior year adjustment-credit refund from city	<u>60,657</u>

Net cash from operating activities \$ 57,222

The notes of the financial statements are an integral part of this statement.

NOTES
TO
FINANCIAL
STATEMENTS

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter Township of Ann Arbor was incorporated August 11, 1986, under the provision of Act 359 of the Public Acts of 1947, as amended. The policies of the Charter Township of Ann Arbor conform to generally accepted accounting principles as applicable to governments.

The accounting and reporting policies of the Township relating to the funds and account groups included in the accompanying combined financial statements conform to generally accepted accounting principles applicable to state and local governments. The more significant accounting policies of the Township are described below.

A. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Township as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the Township (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations or other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally the Township would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The Government-Wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Township are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds, are combined in a single column on the fund financial statements.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for all the activity associated with providing fire protection services. This fund is primarily supported through the collection of property taxes.

The Farmland Preservation Fund was created to account for funds used to preserve/maintain the Township's farmland.

The Township reports the following major proprietary fund:

The Sewer and Water Fund accounts for all the activity associated with the operations and maintenance of operating a treatment system.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Township's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources, measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary funds financial statements.

Proprietary funds account for operations where the intent of the Township is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for any activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges of the activity, or 3) it is the policy of the Township to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Township has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

Fiduciary funds account for assets held by the Township in a trustee or agency capacity on behalf of others and, therefore, are not available to support Township programs. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township programs. The Township currently maintains an agency fund to account for the monies collected and paid on behalf of developer's escrow accounts.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Township) are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Real property is considered a capital asset regardless of initial cost.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	5 to 50 years
Utility plant	5 to 50 years
Machinery and equipment	2 to 40 years
Infrastructure	25 to 75 years

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation), as of the date of the transfer.

D. ACCRUED COMPENSATED ABSENCES

The Township has recorded a liability for compensated absences. The policies regarding compensated absences are outlined in the Township's "Rules of Employment".

E. BUDGETARY DATA

The board of trustees follow the procedures as outlined in the Uniform Budgeting Manual for Local Units of Government in Michigan in the establishment of the various annual budgets.

The supervisor prepares the annual budgets through information received by the clerk's office. The proposed budget is then submitted for discussion and approved by the entire Township board. The budget is approved by activity rather than line item. If and when it becomes necessary to amend certain amounts in the budget, a proposal outlining the desired changes is made to and approved by the Township board at any of their regular meetings. Budget appropriations made, but not expended by year end, will lapse with the fiscal year end.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. PROPERTY TAXES

Property tax revenues are recognized in the subsequent year, for which the taxes are levied. Property taxes are levied on December 1 each year. These taxes become liens on the property at that date. These taxes are due on February 14, with the final collection date of February 28. The delinquent real property taxes of the Township are purchased by Washtenaw County. The county sells tax notes, the proceeds of which are used to pay the Township for these property taxes. This has yet to take place. The 2005 adjusted taxable value of the Township totaled \$452,079,640. The Township levies the following millage:

General township	.7842
Fire	1.9431
Farmland preservation	<u>.6864</u>
Total millage	<u>3.4137</u>

The 2006 taxable value of the Township totaled \$499,815,627. The Township levied the following millage that will be recognized in 2006.

General township	.7669
Fire	1.9003
Farmland preservation	<u>.6712</u>
Total millage	<u>3.3384</u>

G. OTHER FINANCING SOURCES (USES)

The transfers of cash between the various funds are budgeted but reported separate from revenues and expenditures as transfers in or (out) unless they represent temporary advances that are to be repaid, in which case they are carried as assets or liabilities of the advancing or borrowing fund.

H. INVESTMENTS

Investments are stated at lower of cost or market.

I. TOTAL COLUMNS ON STATEMENTS - OVERVIEW

Total columns on the statements which combine more than one fund – (overview) are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

J. MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal Agency obligation repurchase agreements; bankers acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's deposits are as follows:

The Township maintains a petty cash account in the amount of \$150.

<u>Deposits</u>	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Bank Balance</u>
Insured	\$ 1,145,229	\$	\$ 1,145,229	\$ 1,145,229
Uninsured and uncollateralized	<u>9,218,019</u>	<u>2,329,746</u>	<u>11,547,765</u>	<u>11,461,444</u>
Total deposits	<u>\$ 10,363,248</u>	<u>\$ 2,329,746</u>	<u>\$ 12,692,994</u>	<u>\$ 12,606,673</u>

There was an overdraft of \$70,314 in the Fire Fund at December 31, 2006.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the governmental funds for the year ended December 31, 2006 was as follows:

	<u>Balance 1/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/06</u>
Land	\$ 80,000	\$ 229,860	\$	\$ 309,860
General government	462,500	126,007		588,507
Building fund	43,000			43,000
Fire protection	3,193,525	48,260		3,241,785
Construction in progress	<u>6,250</u>		<u>(6,250)</u>	
Total capital assets	3,785,275	404,127	(6,250)	4,183,152
Accumulated depreciation	<u>(1,454,031)</u>	<u>(143,761)</u>		<u>(1,597,792)</u>
Governmental funds capital assets, net	<u>\$ 2,331,244</u>	<u>\$ 260,366</u>	<u>\$ (6,250)</u>	<u>\$ 2,585,360</u>

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - CAPITAL ASSETS (continued)

Depreciation expense is being recorded in the government-wide statement of activities based upon the fund and activity utilizing the assets. The Township utilizes the straight line method to depreciate capital assets over their estimated useful lives.

Depreciation expense was distributed to the various activities as follows:

General government	\$ 16,628
Fire protection	<u>127,133</u>
Total	<u>\$ 143,761</u>

A summary of changes in fixed assets and depreciation for the enterprise fund is as follows:

	<u>WATER & SEWER</u>		
	<u>Balance 1/1/06</u>	<u>Additions</u>	<u>Balance 12/31/06</u>
Sewer system	\$ 6,015,285	\$ 244,300	\$ 6,259,585
Water system	9,116,139	195,300	9,311,439
Utility equipment	<u>2,719,107</u>	<u>47,480</u>	<u>2,766,587</u>
Total capital assets	17,850,531	487,080	18,337,611
Accumulated depreciation	<u>(6,176,574)</u>	<u>(385,894)</u>	<u>(6,562,468)</u>
Governmental activities capital assets, net	<u>\$ 11,673,957</u>	<u>\$ 101,186</u>	<u>\$ 11,775,143</u>

Depreciation is charged as an expense against operations.

Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water and Sewer Systems	50 years
Equipment	5 to 10 years

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables exist at December 31, 2006. These represent short-term borrowings and amounts owed for reimbursements between other funds.

As of December 31, 2006 the following interfund balances were still payable.

	<u>Interfund Receivable</u>		<u>Interfund Payable</u>
General Fund	\$ 678	Payroll Fund	\$ 678
General Fund	500	Trust and Agency Fund	500
Fire Fund	357,833	Tax Collection Fund	357,833
General Fund	172,291	Tax Collection Fund	172,291
Farmland Preservation	<u>126,385</u>	Tax	<u>126,385</u>
Total	<u>\$ 657,687</u>	Total	<u>\$ 657,687</u>

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to the Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to represent cash flows from operations. The following is a schedule of beginning and ending cash and cash equivalents:

	<u>12/31/06</u>	<u>12/31/05</u>
Current assets		
Cash and cash equivalents	<u>\$ 5,722,168</u>	<u>\$ 5,880,813</u>

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PENSION PLAN - DEFINED CONTRIBUTION PLAN

On May 15, 1989, the Charter Township of Ann Arbor signed a single employer defined contribution pension plan and trust agreement with Massachusetts Mutual Life Insurance Company in order to establish a pension plan which will provide retirement and incidental life insurance benefits for its employees. The effective date of this plan was August 1, 1989.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits a participant will receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns on the investments of those contributions.

Employees currently eligible for participation in the plan include all officers of the Charter Township of Ann Arbor including the Supervisor, Treasurer and Clerk and all Township employees who are employed at least twenty hours per week on a regular basis.

Employees currently eligible must be eighteen years of age. Hours of service is computed on the basis of actual hours for which an employee is paid or entitled payment.

No pension provision changes occurred during the year that affected the required contributions to be made.

There are no investments in, loans to, or leases with parties to pension plan or plan officials.

The plan year is January 1 through December 31.

In the event of termination of employment or participation of a participant prior to his or her normal retirement age, the vested interest in that portion of his or her participant's account derived from employer contributions is 100%.

The Township is required to contribute 10% of compensation per participant. There is no mandatory employee contribution.

Normal retirement age of a participant shall be his sixty-fifth birthday. Retirement prior to normal retirement age will be permitted upon the attainment of age fifty-five and the completion of one year of service.

A summary of the most recent available plan's activity for the period January 1, 2006 to December 31, 2006 is as follows:

BALANCE IN GUARANTEED ACCOUNT, JANUARY 1, 2006	\$ 1,048,663
Contributions	80,821
Withdrawals	(83,492)
Investment Income	<u>125,239</u>
 BALANCE IN GUARANTEED ACCOUNT, DECEMBER 31, 2006	 <u>\$ 1,171,231</u>

The Township made contributions totaling \$80,821 for the year ended December 31, 2006. Total covered payroll was \$833,318 and total payroll was \$909,215 for the year ended December 31, 2006.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 - POTENTIAL LOST TAX REVENUES - ANNEXATION

The Township and the City of Ann Arbor have been negotiating annexation of certain Township properties into the city so that each community may systematically plan for the provision of services to its areas. Management for the Township has been estimating the lost tax revenue to the Township because of the annexation activities. Management is estimating under a worse case scenario the annual loss could be as high as \$213,000 for the year 2007. The annual loss could go up to \$235,000 for the year 2012.

NOTE 8 - SEGMENT INFORMATION FOR ENTERPRISE FUND

The Township maintains a proprietary fund which is financed by user charges. Segment information as of December 31, 2006 follows:

	<u>Water and Sewer System</u>
Operating revenues	\$ 941,675
Depreciation	385,894
Operating (loss)	(607,833)
Interest and other non-operating revenues and (expenses)	271,213
Change in net assets	(336,620)
 Current assets	 4,472,516
Current liabilities	1,060,363
Net working capital	3,412,153
 Total assets	 18,350,510
Total liabilities	1,060,363
Net assets	17,290,147

NOTE 9 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

As mentioned in Note #10, the Township is also exposed to losses relating to litigation of zoning issues. Due to the high premiums for zoning insurance (\$25,000 annually) and the low protection received (\$100,000 limited annual coverage with a \$25,000 deductible) the Township Board approved to self insure the Township for zoning litigation. For 2006, \$200,000 of the general fund's fund balance was reserved for zoning litigation.

CHARTER TOWNSHIP OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CONTINGENCIES

The Township is involved in various legal actions arising in the normal course of business, mostly related to zoning issues. Management is of the opinion the various legal actions except for one will not have a material effect upon the financial statements. Management has accrued for one case approximately \$72,000 in its general fund as a contingent liability.

NOTE 11 - FEDERAL GRANT ACTIVITIES

The Township has been a recipient of federal grants for capital equipment for fire protection. There was \$27,055 received in the current year. However, these funds may still be subject to federal grant audit requirements.

NOTE 12 - DONATIONS AND FEDERAL GRANT TO THE FARMLAND PRESERVATION FUND

The Township conducted two separate transactions through the Farmland Preservation Fund in order to preserve almost 300 acres of farmland from development.

1. Approximately 153 acres was donated to the Township by a developer under restrictions that preserve it in perpetuity for farming. The value of the donation was estimated at approximately \$230,000 for financial statement purposes.
2. The Township acquired development rights to a 142 acre farm which also preserves the land from future development. The total amount paid for the easement (development rights) was \$2,213,468. The amount came from three different sources which were as follows:

Ann Arbor Township Millage	\$ 757,484
City of Ann Arbor - Green Belt Program	757,484
Federal Farmland and Ranch Protection Program (FRPP)	<u>698,500</u>
Total	<u><u>\$ 2,213,468</u></u>

NOTE 13 - PRIOR PERIOD ADJUSTMENT - WATER AND SEWER FUND

The City of Ann Arbor charges the Township for water and sewer usage on a quarterly basis. It was found late in 2006 that the City overcharged the Township \$60,657 for the quarter ending December 31, 2005. This resulted in an increase to the beginning 2006 net equity (retained earnings) of \$60,657.

REQUIRED
SUPPLEMENTARY
INFORMATION

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$	\$	\$ 362,470	\$
Tax collection fees			144,439	
State revenue sharing			298,240	
Planning commission fees			12,339	
Zoning board of appeals			3,150	
Fees and services			11,235	
Cable TV - franchise fees			61,931	
Metro fees			5,709	
Annexation fees			7,500	
Sale of books, maps, etc.			1,149	
Fines and tickets			3,366	
Interest			119,429	
Penalties and interest			2,992	
Rental income			64,973	
Election grant			13,584	
Miscellaneous			1,720	
Police services contract			123,236	
Total revenues	1,098,172	1,106,809	1,237,462	130,653
EXPENDITURES				
Board of Trustees	22,367	30,517	28,172	2,345
Supervisor	90,363	90,563	89,524	1,039
Accounting and audit	8,375	15,150	11,528	3,622
Election	13,860	16,660	10,387	6,273
Assessor	69,530	84,530	87,897	(3,367)
Legal counsel	71,960	92,960	91,289	1,671
Clerk	100,747	100,747	101,846	(1,099)
Treasurer	117,391	117,391	91,267	26,124
Buildings and grounds	15,169	28,753	22,320	6,433
Central charges	113,565	147,265	139,150	8,115
Sheriff department	403,375	403,375	369,374	34,001
Planning commission	41,463	57,503	57,333	170
Zoning board of appeals	19,971	19,971	21,544	(1,573)
Consultants		2,000	3,477	(1,477)
Roads	50,000	45,000	44,911	89
Other	1,260	1,260	474	786
Total expenditures	1,139,396	1,253,645	1,170,493	83,152
Excess (deficiency) of revenues over (under) expenditures	(41,224)	(146,836)	66,969	213,805
FUND BALANCE, JANUARY 1, 2006	2,337,918	2,337,918	2,337,918	
FUND BALANCE, DECEMBER 31, 2006	\$ 2,296,694	\$ 2,191,082	\$ 2,404,887	\$ 213,805

CHARTER TOWNSHIP OF ANN ARBOR
FIRE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$	\$	\$ 898,480	\$
Grant			27,055	
Charges for services			6,329	
Miscellaneous			282	
Interest			37,168	
Total revenues	908,161	938,861	969,314	30,453
EXPENDITURES				
Department head - wages			66,890	
Permanent - salaries			350,990	
Part time - wages			16,993	
Over time			16,702	
Holiday, sick and vacation - wages			5,422	
Medical			91,424	
Life insurance			12,589	
Dental insurance			9,111	
Pension			45,727	
Payroll taxes			40,114	
Employment physicals			584	
Paid on-call			43,772	
Office supplies			922	
Computer hardware/software			917	
Fire fighting supplies			14,167	
Uniform allowances			4,485	
Gasoline			12,502	
Janitorial supplies			1,537	
Audit/accounting			3,884	
Subscriptions and books			416	
Membership and dues			1,088	
Legal			2,351	
Service contracts			16,380	
Telephone			3,254	
Insurance and bonds			51,371	
Electricity			10,558	
Heating			7,590	
Water and sewer usage			518	
Repairs and maintenance - building			7,221	
Repairs and maintenance - equipment			20,816	
Training and improvements			2,340	
Tax chargebacks			1,793	
Grant expenses			39,566	
Office furniture and equipment			563	
Miscellaneous			970	
Total expenditures	926,220	967,910	905,527	62,383
Excess (deficiency) of revenues over (under) expenditures	(18,059)	(29,049)	63,787	92,836
FUND BALANCE, JANUARY 1, 2006	467,894	467,894	467,894	
FUND BALANCE, DECEMBER 31, 2006	\$ 449,835	\$ 438,845	\$ 531,681	\$ 92,836

CHARTER TOWNSHIP OF ANN ARBOR
FARMLAND PRESERVATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget Amount			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$	\$	\$ 317,380	\$
Interest			6,801	
Grant			698,500	
Donation - Farmland			229,860	
Donation - other			756,886	
Total revenues	<u>1,739,020</u>	<u>1,745,020</u>	<u>2,009,427</u>	<u>264,407</u>
EXPENDITURES				
Land rights purchase			2,212,870	
Farmland			229,860	
Legal Fees			23,546	
Consultants			14,250	
Debt service - interest			5,500	
Service contracts			1,450	
Miscellaneous			719	
Total expenditures	<u>2,203,050</u>	<u>2,208,550</u>	<u>2,488,195</u>	<u>(279,645)</u>
Excess (Deficiency) of revenues over (under) expenditures	(464,030)	(463,530)	(478,768)	(15,238)
OTHER FINANCING SOURCES/USES				
Transfer in			500,000	500,000
Net change in fund balance	(464,030)	(463,530)	21,232	484,762
FUND BALANCE, JANUARY 1, 2006	<u>233,811</u>	<u>233,811</u>	<u>233,811</u>	
FUND BALANCE, DECEMBER 31, 2006	<u>\$ (230,219)</u>	<u>\$ (229,719)</u>	<u>\$ 255,043</u>	<u>\$ 484,762</u>

SUPPLEMENTARY
INFORMATION

COMBINING
FINANCIAL
STATEMENTS

CHARTER TOWNSHIP OF ANN ARBOR
COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2006

	Fire Fund	Building Department Fund	Street Lighting Fund	Capital Improvement Fund	Farmland Preservation Fund	Totals
<u>ASSETS</u>						
ASSETS						
Cash and investments	\$ 605,939	\$ 555,174	\$ 4,374	\$ 775,459	\$ 255,900	\$ 2,196,846
Taxes receivable	569,066					569,066
Due from others					4,050	4,050
Special assessment receivable			47			47
Due from other funds	357,833				126,385	484,218
Prepaid expense	54,107					54,107
Total assets	<u>\$ 1,586,945</u>	<u>\$ 555,174</u>	<u>\$ 4,421</u>	<u>\$ 775,459</u>	<u>\$ 386,335</u>	<u>\$ 3,308,334</u>
 <u>LIABILITIES AND FUND BALANCE</u>						
LIABILITIES						
Accounts payable	\$ 13,177	\$ 1,522	\$ 324	\$	\$ 4,907	\$ 19,930
Bank overdraft	70,314					70,314
Accrued compensated absences	44,874	7,196				52,070
Deposit on truck				25,000		25,000
Deferred revenue	926,899	48,585		32,025	126,385	1,133,894
Total liabilities	1,055,264	57,303	324	57,025	131,292	1,301,208
FUND BALANCE	531,681	497,871	4,097	718,434	255,043	2,007,126
Total liabilities and fund equity	<u>\$ 1,586,945</u>	<u>\$ 555,174</u>	<u>\$ 4,421</u>	<u>\$ 775,459</u>	<u>\$ 386,335</u>	<u>\$ 3,308,334</u>

CHARTER TOWNSHIP OF ANN ARBOR
COMBINING BALANCE SHEET
ALL FIDUCIARY FUNDS
DECEMBER 31, 2006

	Escrow Fund	Payroll Fund	Tax Collection Fund	Trust and Agency Fund	Totals
<u>ASSETS</u>					
ASSETS					
Cash and investments	\$ 254,253	\$ 678	\$ 2,074,315	\$ 500	\$ 2,329,746
Due from others	23,849				23,849
Total assets	<u>\$ 278,102</u>	<u>\$ 678</u>	<u>\$ 2,074,315</u>	<u>\$ 500</u>	<u>\$ 2,353,595</u>
<u>LIABILITIES</u>					
LIABILITIES					
Due to other funds	\$ 278,102	\$ 678	\$ 656,509	\$ 500	\$ 657,687
Due to others			1,417,806		1,695,908
Total liabilities	<u>\$ 278,102</u>	<u>\$ 678</u>	<u>\$ 2,074,315</u>	<u>\$ 500</u>	<u>\$ 2,353,595</u>

CHARTER TOWNSHIP OF ANN ARBOR
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2006

	Fire Fund	Building Department Fund	Street Lighting Fund	Capital Improvement Fund	Farmland Preservation Fund	Totals
REVENUES						
Taxes	\$ 898,480	\$	\$	\$	\$ 317,380	\$ 1,215,860
Special assessments			3,689			3,689
Service contract				75,378		75,378
Building permits		177,068				177,068
Grant	27,055				698,500	725,555
Donations					986,746	986,746
Charges for services	6,329					6,329
Interest	37,168	13,968	69	12,440	6,801	70,446
Rental income				75,761		75,761
Miscellaneous	282					282
Total revenues	969,314	191,036	3,758	163,579	2,009,427	3,337,114
EXPENDITURES	905,527	160,142	3,904		2,488,195	3,557,768
Excess (deficiency) of revenues over (under) expenditures	63,787	30,894	(146)	163,579	(478,768)	(220,654)
OTHER FINANCING SOURCES (USES)						
Transfers in					500,000	500,000
Net change in fund balance	63,787	30,894	(146)	163,579	21,232	279,346
FUND BALANCE, JANUARY 1, 2006	467,894	466,977	4,243	554,855	233,811	1,727,780
FUND BALANCE, DECEMBER 31, 2006	\$ 531,681	\$ 497,871	\$ 4,097	\$ 718,434	\$ 255,043	\$ 2,007,126

INDIVIDUAL
FUNDS

GENERAL
FUND

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 2,514,698	
Accrued interest receivable	28,090	
Taxes receivable	264,720	
State shared revenue receivable	47,195	
Due from other funds	173,469	
Prepaid expense	<u>19,378</u>	
Total assets		<u>\$ 3,047,550</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 36,732	
Accrued potential litigation	72,214	
Accrued payroll and related expenditures	9,564	
Deferred revenue	<u>524,153</u>	
Total liabilities		\$ 642,663

FUND BALANCE

Unreserved	2,204,887	
Reserved	<u>200,000</u>	
Total fund balance		<u>2,404,887</u>
Total liabilities and fund balance		<u>\$ 3,047,550</u>

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Taxes	\$	\$ 362,470	\$
Tax collection fees		144,439	
State revenue sharing		298,240	
Planning commission fees		12,339	
Zoning board of appeals		3,150	
Fees and services		11,235	
Cable TV - franchise fees		61,931	
Metro fees		5,709	
Annexation fees		7,500	
Sale of books, maps, etc		1,149	
Fines and tickets		3,366	
Interest		119,429	
Penalties and interest		2,992	
Rental income		64,973	
Election grant		13,584	
Miscellaneous		1,720	
Police service		123,236	
	<u>1,106,809</u>	<u>1,237,462</u>	<u>130,653</u>
Total revenues			
EXPENDITURES	<u>1,253,645</u>	<u>1,170,493</u>	<u>83,152</u>
Excess (deficiency) of revenues over (under) expenditures	(146,836)	66,969	213,805
FUND BALANCE, JANUARY 1, 2006	<u>2,337,918</u>	<u>2,337,918</u>	
FUND BALANCE, DECEMBER 31, 2006	<u>\$ 2,191,082</u>	<u>\$ 2,404,887</u>	<u>\$ 213,805</u>

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
BOARD OF TRUSTEES			
Per diem - salaries	\$	\$ 5,980	\$
Payroll taxes		457	
Membership dues		10,829	
Service contracts		7,685	
Advertising		3,221	
	<u>30,517</u>	<u>28,172</u>	<u>2,345</u>
SUPERVISOR			
Department head - salary		58,428	
Medical		13,547	
Life insurance		1,890	
Dental insurance		1,060	
Pension		5,843	
Payroll taxes		4,635	
Personnel reallocation		2,250	
Supplies for resale		193	
Convention and conferences		215	
Mileage		1,463	
	<u>90,563</u>	<u>89,524</u>	<u>1,039</u>
ACCOUNTING AND AUDIT			
Accounting		8,028	
Audit		3,500	
	<u>15,150</u>	<u>11,528</u>	<u>3,622</u>
ELECTION			
Supplies		2,788	
May election		1,071	
August election		3,033	
November election		3,495	
	<u>16,660</u>	<u>10,387</u>	<u>6,273</u>

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
ASSESSOR			
Service contract		80,802	
Operating expense		7,095	
Total assessor	84,530	87,897	(3,367)
LEGAL COUNSEL			
Attorney fees	92,960	91,289	1,671
CLERK			
Department head - salary		36,712	
Permanent – salary		40,417	
Leave hours		1,777	
Medical		16,119	
Life insurance		2,788	
Dental insurance		1,732	
Pension		7,713	
Payroll taxes		5,900	
Personnel allocation		(12,011)	
Memberships and dues		105	
Mileage		518	
Conventions and conferences		76	
Total clerk	100,747	101,846	(1,099)
TREASURER			
Department head - salary		37,995	
Permanent - salary		37,020	
Medical		25,645	
Life insurance		2,412	
Dental insurance		2,294	
Pension		7,501	
Payroll taxes		5,739	
Personnel allocation		(31,510)	
Membership and dues		10	
Mileage		1,246	
Computer update and training		798	
Miscellaneous		183	
Tax billing service		1,934	
Total treasurer	117,391	91,267	26,124

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
BUILDINGS AND GROUNDS			
Bank fees		25	
Service contracts		239	
Telephone		5,775	
Electricity		4,693	
Heating		2,126	
Repairs and maintenance - building		2,513	
Ground care and maintenance		1,189	
Equipment and furniture		14,017	
Building allocation		(8,257)	
		<u> </u>	<u> </u>
Total building and grounds	<u>28,753</u>	<u>22,320</u>	<u>6,433</u>
CENTRAL CHARGES			
Office and supplies		6,859	
Postage		5,788	
Miscellaneous		2,427	
Service contracts		19,021	
Insurance and bonds		19,164	
Office equipment		110,522	
Computer software		7,973	
Office allocation		(32,604)	
		<u> </u>	<u> </u>
Total central charges	<u>147,265</u>	<u>139,150</u>	<u>8,115</u>
SHERIFF DEPARTMENT			
Contract fee	<u>403,375</u>	<u>369,374</u>	<u>34,001</u>
PLANNING COMMISSION			
Per diem - wages		10,920	
Payroll taxes		835	
Consultants - planning		21,293	
Consultants - engineering		6,673	
Pre application		309	
Consultants - other		3,200	
Legal fees		10,365	
Advertising and publishing		378	
Service contracts		1,415	
Miscellaneous		1,795	
Office supplies		150	
		<u> </u>	<u> </u>
Total planning commission	<u>57,503</u>	<u>57,333</u>	<u>170</u>

CHARTER TOWNSHIP OF ANN ARBOR
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
ZONING BOARD OF APPEALS			
Personnel allocation		18,925	
Per Diem		750	
Legal fees		1,812	
Payroll taxes		57	
Total zoning board of appeals	<u>19,971</u>	<u>21,544</u>	<u>(1,573)</u>
ROADS			
Service contracts	<u>45,000</u>	<u>44,911</u>	<u>89</u>
OTHER			
Miscellaneous	<u>3,260</u>	<u>3,951</u>	<u>(691)</u>
Total expenditures	<u><u>\$ 1,253,645</u></u>	<u><u>\$ 1,170,493</u></u>	<u><u>\$ 83,152</u></u>

FIRE
FUND

CHARTER TOWNSHIP OF ANN ARBOR
FIRE FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 605,939	
Taxes receivable	569,066	
Prepaid expense	54,107	
Due from other funds	<u>357,833</u>	
Total assets		<u>\$ 1,586,945</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 13,177	
Bank overdraft	70,314	
Accrued compensated absences	44,874	
Deferred revenue	<u>926,899</u>	
Total liabilities		\$ 1,055,264

FUND BALANCE

		<u>531,681</u>
Total liabilities and fund balance		<u>\$ 1,586,945</u>

CHARTER TOWNSHIP OF ANN ARBOR
FIRE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Taxes	\$	\$ 898,480	\$
Grant		27,055	
Charges for services		6,329	
Miscellaneous		282	
Interest		<u>37,168</u>	
Total revenues	938,861	969,314	30,453
EXPENDITURES	<u>967,910</u>	<u>905,527</u>	<u>62,383</u>
Excess (deficiency) of revenues over (under) expenditures	(29,049)	63,787	92,836
FUND BALANCE, JANUARY 1, 2006	<u>467,894</u>	<u>467,894</u>	
FUND BALANCE, DECEMBER 31, 2006	<u><u>\$ 438,845</u></u>	<u><u>\$ 531,681</u></u>	<u><u>\$ 92,836</u></u>

CHARTER TOWNSHIP OF ANN ARBOR
FIRE FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES			
Department head - wages	\$	\$ 66,890	\$
Permanent - salaries		350,990	
Part time - wages		16,993	
Overtime		16,702	
Holiday, sick and vacation - wages		5,422	
Medical		91,424	
Life insurance		12,589	
Dental insurance		9,111	
Pension		45,727	
Payroll taxes		40,114	
Employment physicals		584	
Paid on-call		43,772	
Office supplies		922	
Computer hardware/software		917	
Fire fighting supplies		14,167	
Uniform allowances		4,485	
Gasoline		12,502	
Janitorial supplies		1,537	
Audit/accounting		3,884	
Subscriptions and books		416	
Membership and dues		1,088	
Legal		2,351	
Service contracts		16,380	
Telephone		3,254	
Insurance and bonds		51,371	
Electricity		10,558	
Heating		7,590	
Water and sewer useage		518	
Repairs and maintenance - building		7,221	
Repairs and maintenance - equipment		20,816	
Training and improvements		2,340	
Tax chargebacks		1,793	
Grant related equipment and supplies		39,566	
Office furniture and equipment		563	
Miscellaneous		970	
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 967,910</u>	<u>\$ 905,527</u>	<u>\$ 62,383</u>

BUILDING
DEPARTMENT
FUND

CHARTER TOWNSHIP OF ANN ARBOR
BUILDING DEPARTMENT FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 555,174
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 1,522
Accrued vacation and sick pay	7,196
Deferred revenue	<u>48,585</u>

Total liabilities	\$ 57,303
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FUND BALANCE

<u>497,871</u>

Total liabilities and fund balance	<u>\$ 555,174</u>
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CHARTER TOWNSHIP OF ANN ARBOR
BUILDING DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Building permits	\$	\$ 177,068	\$
Interest income		13,968	
Total revenues	<u>176,500</u>	<u>191,036</u>	<u>14,536</u>
EXPENDITURES			
Department head		75,849	
Medical		1,440	
Life insurance		2,202	
Dental		1,060	
Pension		7,672	
Payroll taxes		5,869	
Office supplies		542	
Gasoline and diesel		1,176	
Audit/accounting		6,265	
Subscriptions and books		882	
Membership and dues		1,459	
Inspector		9,273	
Training		993	
Telephone		740	
Equipment repair and maintenance		2,013	
Personnel reallocation		10,335	
Buildings and grounds allocation		4,893	
Central charges allocation		27,479	
Total expenditures	<u>153,027</u>	<u>160,142</u>	<u>(7,115)</u>
Excess (deficiency) of revenues over (under) expenditures	23,473	30,894	7,421
FUND BALANCE, JANUARY 1, 2006	<u>466,977</u>	<u>466,977</u>	
FUND BALANCE, DECEMBER 31, 2006	<u>\$ 490,450</u>	<u>\$ 497,871</u>	<u>\$ 7,421</u>

STREET
LIGHTING
FUND

CHARTER TOWNSHIP OF ANN ARBOR
STREET LIGHTING FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 4,374
Special assessment receivable	<u>47</u>
Total assets	<u>\$ 4,421</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 324
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FUND BALANCE

4,097

Total liabilities and fund balance	<u>\$ 4,421</u>
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CHARTER TOWNSHIP OF ANN ARBOR
STREET LIGHTING FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Special assessments	\$ 5,770	\$ 3,689	\$ (2,081)
Interest	75	69	(6)
Total revenues	5,845	3,758	(2,087)
EXPENDITURES			
Electricity	4,500	3,904	596
Excess (deficiency) of revenues over (under) expenditures	1,345	(146)	(1,491)
FUND BALANCE, JANUARY 1, 2006	4,243	4,243	
FUND BALANCE, DECEMBER 31, 2006	\$ 5,588	\$ 4,097	\$ (1,491)

CAPITAL
IMPROVEMENT
FUND

CHARTER TOWNSHIP OF ANN ARBOR
CAPITAL IMPROVEMENT FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments

\$ 775,459

LIABILITIES AND FUND BALANCE

LIABILITIES

Deferred revenues

\$ 32,025

Deposit on truck

25,000

Total liabilities

\$ 57,025

FUND BALANCE

718,434

Total liabilities and fund balance

\$ 775,459

CHARTER TOWNSHIP OF ANN ARBOR
CAPITAL IMPROVEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Service contract	\$	\$ 75,378	\$
Interest		12,440	
Rental income		75,761	
Total revenues	163,993	163,579	(414)
EXPENDITURES			
Excess (deficiency) of revenues over (under) expenditures	163,993	163,579	(414)
FUND BALANCE, JANUARY 1, 2006	554,855	554,855	
FUND BALANCE, DECEMBER 31, 2006	<u>\$ 718,848</u>	<u>\$ 718,434</u>	<u>\$ (414)</u>

FARMLAND
PRESERVATION
FUND

CHARTER TOWNSHIP OF ANN ARBOR
FARMLAND PRESERVATION FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 255,900	
Due from others	4,050	
Due from other funds	<u>126,385</u>	
Total assets		<u>\$ 386,335</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 4,907	
Deferred revenues	<u>126,385</u>	
Total liabilities		131,292

FUND BALANCE

	<u>255,043</u>	
Total liabilities and fund balance		<u>\$ 386,335</u>

CHARTER TOWNSHIP OF ANN ARBOR
FARMLAND PRESERVATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$	\$ 317,380	\$
Interest		6,801	
Grant		698,500	
Donation - Farmland		229,860	
Donation - other		756,886	
Total revenues	1,745,020	2,009,427	264,407
EXPENDITURES			
Land rights purchase		2,212,870	
Farmland		229,860	
Legal Fees		23,546	
Consultants		14,250	
Debt service - Interest		5,500	
Service contracts		1,450	
Miscellaneous		719	
Total expenditures	2,208,550	2,488,195	(279,645)
Excess (deficiency) of revenues over (under) expenditures	(463,530)	(478,768)	(15,238)
OTHER FINANCING SOURCES (USES)			
Transfer in		500,000	500,000
Net change in fund balance	(463,530)	21,232	484,762
FUND BALANCE, JANUARY 1, 2006	233,811	233,811	
FUND BALANCE, DECEMBER 31, 2006	\$ (229,719)	\$ 255,043	\$ 484,762

WATER AND
SEWER
FUND

CHARTER TOWNSHIP OF ANN ARBOR
WATER AND SEWER FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 3,619,316	
Accounts receivable	179,664	
Taxes receivable	500,000	
Interest receivable	149,290	
Prepaid expense	17,127	
Due from others	<u>7,119</u>	
Total current assets		\$ 4,472,516

RESTRICTED ASSETS

Cash and cash equivalents		2,102,852
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PROPERTY, PLANT AND EQUIPMENT

Water and sewer system	15,571,024	
Equipment	<u>2,766,587</u>	
	18,337,611	
Less accumulated depreciation	<u>6,562,469</u>	

Net property, plant and equipment		<u>11,775,142</u>
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Total assets		<u><u>\$ 18,350,510</u></u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 172,523	
Accrued compensated absences	21,104	
Deferred revenue	500,000	
Accrued connection fees	<u>366,736</u>	
Total current liabilities		\$ 1,060,363

FUND EQUITY

Retained earnings		
Reserved	6,828,227	
Unreserved	<u>10,461,920</u>	

Total fund equity		<u>17,290,147</u>
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Total liabilities and fund balance		<u><u>\$ 18,350,510</u></u>
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CHARTER TOWNSHIP OF ANN ARBOR
WATER AND SEWER FUND
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Special assessments - interest	\$	\$ 293	\$
Charges for services		941,675	
Interest income - investments		209,953	
Connection fees and expenses (net)		9,303	
Total revenues and receipts	<u>1,817,500</u>	<u>1,161,224</u>	<u>(656,276)</u>
EXPENSES AND DISBURSEMENTS			
Purchases of services		822,902	
Wages		97,826	
Insurance - employees		35,718	
Pension		7,476	
Payroll taxes		7,162	
Office		1,731	
Printing		1,665	
Dues and memberships		225	
Gasoline and diesel		3,335	
Consultants		20,463	
Legal and accounting		36,381	
Service contracts		7,367	
Depreciation		385,894	
Repairs and maintenance		49,268	
Insurance and bonds		16,741	
Utilities and telephone		13,654	
Building, office and personnel allocation		20,500	
Small equipment		17,545	
Other operating expenses		3,655	
Total expenses and disbursements	<u>\$ 2,219,823</u>	<u>\$ 1,549,508</u>	<u>\$ 670,315</u>

This schedule is prepared on a budgetary basis and as such does not present the expenditures for the year on the basis of generally accepted accounting principles but is presented for supplemental information.

CHARTER TOWNSHIP OF ANN ARBOR
WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Total</u>
OPERATING REVENUES	
Charges for services and meters	<u>\$ 941,675</u>
OPERATING EXPENSES	
Purchases of services	822,902
Wages	97,826
Insurance - employees	35,718
Pension	7,476
Payroll taxes	7,162
Office	1,731
Printing	1,665
Gasoline and diesel	3,335
Consultants	20,463
Legal and accounting	36,381
Dues and memberships	225
Service contracts	7,367
Utilizes and telephone	13,654
Insurance and bonds	16,741
Repairs and maintenance	49,268
Building, office and personnel allocation	20,500
Small equipment	17,545
Depreciation expense	385,894
Other operating expenses	<u>3,655</u>
Total operating expenses	<u>1,549,508</u>
Operating (loss)	<u>(607,833)</u>
NON-OPERATING REVENUES (EXPENSES)	
Loss on projects	(987)
Transfer-out Farmland Preservation Fund	(500,000)
Interest income - special assessments	293
Interest income - investments	323,004
Connections fees (net)	9,303
Developer's contributions	<u>439,600</u>
Total other revenues/expenses	<u>271,213</u>
Net (loss)	(336,620)
RETAINED EARNINGS, January 1, 2006 (before prior period adjustment)	17,566,110
PRIOR PERIOD ADJUSTMENT	<u>60,657</u>
RETAINED EARNINGS, January 1, 2006 (after prior period adjustment)	<u>17,626,767</u>
RETAINED EARNINGS, December 31, 2006	<u><u>\$ 17,290,147</u></u>

CHARTER TOWNSHIP OF ANN ARBOR
WATER AND SEWER FUND
STATEMENT OF CASH FLOWS - INDIRECT METHOD
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:

Operating (loss)		\$ (607,833)
Adjustments to reconcile operating income to net cash from (used in) operating activities		
Depreciation	385,894	
Changes in assets and liabilities		
(Increase) in prepaid expenses	(15,953)	
Decrease in due from others	41,452	
(Increase) in accounts receivable	(6,021)	
Decrease in assessments receivable	1,239	
(Increase) interest receivable	(70,800)	
(Decrease) in accounts payable	(87,015)	
(Decrease) due to other funds	(15,406)	
Increase accrued compensated absences	4,272	
Increase accrued connection fees	366,736	
Prior year adjustment - credit refund from City	<u>60,657</u>	
Total adjustments		<u>665,055</u>
Net cash from operating activities		57,222

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Special assessment interest	293	
Connection fees, (net)	9,303	
Acquisition of equipment and construction	(47,480)	
Transfer to Farmland Preservation Fund	<u>(500,000)</u>	
Net cash (used in) capital and related financing activities		(537,884)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	323,004	
Project escrow reimbursements	<u>(987)</u>	
Net cash from investing activities		<u>322,017</u>
(Decrease) in cash		(158,645)

CASH AT JANUARY 1, 2006	<u>5,880,813</u>
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CASH AT DECEMBER 31, 2006	<u><u>\$ 5,722,168</u></u>
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PAYROLL
FUND

CHARTER TOWNSHIP OF ANN ARBOR
PAYROLL FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments

\$ 678

LIABILITIES

LIABILITIES

Due to other funds

\$ 678

TAX
COLLECTION
FUND

CHARTER TOWNSHIP OF ANN ARBOR
TAX COLLECTION FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments

\$ 2,074,315

LIABILITIES

LIABILITIES

Due to others

\$ 1,417,806

Due to other funds

656,509

Total liabilities

\$ 2,074,315

TRUST AND
AGENCY FUND

CHARTER TOWNSHIP OF ANN ARBOR
TRUST AND AGENCY FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments

\$ 500

LIABILITIES

LIABILITIES

Due to other funds

\$ 500

ESCROW
FUND

CHARTER TOWNSHIP OF ANN ARBOR
ESCROW FUND
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

ASSETS

Cash and investments	\$ 254,253	
Due from developers	<u>23,849</u>	
Total assets		<u>\$ 278,102</u>

LIABILITIES

LIABILITIES

Due to others		<u>\$ 278,102</u>
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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

March 21, 2007

Board of Trustees
Charter Township of Ann Arbor
3792 Pontiac Trail
Ann Arbor, MI 48105

Dear Honorable Board Members:

During our audit of the Charter Township of Ann Arbor we came across some items we would like to discuss with you as part of our audit presentation for the year ending December 31, 2006.

1. The Township received a donation of land (approximately 153 acres) which was put into the farmland preservation fund. The value of the land was not budgeted as revenue and offsetting expenditure as required by generally accepted accounting principles. Non-cash transactions should also be included in the Township budgets.
2. While testing reimbursements to staff we noticed one reimbursement to an official covered a year of expenses. We recommend in the future the Township require reimbursement requests be submitted at least monthly.

Documentation which substantiates mileage did not always consist of mileage logs explaining the purpose of the mileage. We suggest better documentation in the future.

3. While transitioning from separate accounts to a common account, the Fire Fund showed a sizable overdraft in its portion of the common bank account, even though the overall bank account was not overdrafted. The Fire Fund is essentially borrowing from other funds which also use the common account. In the future, transfers should be made more quickly from other bank accounts in the Fire Fund to the common account so an overdraft does not occur.
4. We noticed the Township paid for a retirement plaque for an individual employee. The amount was minimal; however, it is still considered an illegal expenditure. The Township needs to be cautious in spending funds in this area.

5. The Township maintains a separate fund to track various escrow accounts which are divided into three categories. Some of the escrow balances were negative as of December 31, 2006. The following is a summary of our findings:

- Performance Bonds
6 projects
0 deficits
- Utility (Water/Sewer) Projects
20 projects
9 deficits
- Planning Projects
37 projects
4 deficits

The total deficits were \$23,848.

We suggest the Township review each escrow with a deficit and consider writing it off if collection is not likely.

6. While reviewing federal grant proceeds and related expenditures in the Fire Fund we noticed one instance where an expenditure of \$2,500 was made six months after the related grant proceeds were received. The grant requirements state the expenditure must be made prior to the receipt of federal funds. In the future, the Township should be cautious not to request reimbursement of federal funds prior to disbursing its required expenditure.

We would like to thank the Township officials and employees that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of the Charter Township of Ann Arbor and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants